

**DECISION**



**THE COMPTROLLER GENERAL  
OF THE UNITED STATES**  
WASHINGTON, D. C. 20548

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Golden

FILE: B-201503, B-201625

DATE: September 10, 1981

MATTER OF: D-K Associates, Inc.

**DIGEST:**

1. Protest of Air Force decisions at two Air Force Bases to perform audiovisual services in-house rather than contract out is denied where protester has not shown that cost comparison was inaccurate or violated mandated procedures for determining costs of in-house versus contracting out operations.
2. Recovery of bid preparation costs is denied where agency's decision to continue in-house audiovisual services instead of contracting out was not arbitrary.

D-K Associates, Inc. (D-K), protests the Air Force's decision to cancel two invitations for bid (IFB) for the furnishing of products and services necessary to manage and operate the Audiovisual Service Centers at Hill Air Force Base (Hill AFB), Utah (IFB No. F42650-80-B3647), and at Edwards Air Force Base (Edwards AFB), California (IFB No. F04700-80-B-0036). The solicitations were canceled because the contracting officer determined that the work could be performed at a lower cost to the Government through continued use of Government personnel rather than outside contractors. D-K timely filed administrative appeals of the Air Force's decisions at both AFBs. These appeals were denied and timely protests were filed with GAO. Essentially, D-K contends that the cost comparisons in both cases were inaccurate and failed to comply with the Air Force's regulations, policies and procedures.

The protests are denied.

Initially, we point out with regard to a protest involving a dispute over an agency decision to perform work in-house rather than to contract out the services,

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we will only consider allegations of a faulty or misleading cost comparison. Serv-Air, Inc.; AVCO, (B-195183, October 24, 1980), 60 Comp. Gen. \_\_\_\_\_ (1980), 80-2 CPD 317. In the course of our review, we will question only whether mandated procedures were followed and not the procedures themselves, since the procedures are matters of policy within the province of the Executive Branch. Serv-Air, Inc.; AVCO, supra.

Hill Air Force Base Protest  
Line 1 - Direct Material Costs

D-K asserts that the Air Force did not follow the Department of Defense (DOD) Cost Comparison Handbook (CCH) and other DOD guidance in calculating the direct material costs of performing audiovisual services, that the Air Force's methodology constituted an unauthorized deviation from DOD instructions, and that, in any event, the prices for materials which resulted from the computations were based on general data which failed to isolate costs unique to audiovisual supplies which would produce higher, but more realistic markups and prices. Direct material costs are defined in the CCH as the cost of such goods as raw material, parts, subassemblies, components and supplies, which, as a practical matter can be identified specifically for use in the performance of the solicited product/service. In the case of audiovisual services examples of these supplies are camera film and film developing chemicals.

Specifically, D-K alleges that the Air Force improperly used lower markup rates than are provided for in the CCH to compute the costs of purchasing audiovisual supplies. The CCH requires that in calculating the price of supplies purchased from other Government agencies (Government source of supply) such as the General Services Administration (GSA) or the Defense Logistics Agency (DLA), indirect costs (markup) associated with these purchases, for example, the cost of acquisition, storage, and management by GSA or DLA, must be added to the prices to show full costs. The CCH provides markup rates for GSA and DLA supplied materials.

D-K states that the Air Force used a 12.1-percent markup in its cost comparison for Government stores purchases. According to D-K, the CCH requires application of 13.4-percent or 24.5-percent markup depending on which specific DLA program provided the supplies, not the 12.1-percent markup applied by the Air Force. D-K concludes

that application of these higher markups would have increased the total in-house cost for direct materials and also increased the final in-house estimates for two other cost categories, General and Administrative expenses (G&A), (G&A is the AFB's management, financial and other direct expenses incurred in procuring and handling of the supplies) and inflation costs. Both G&A and inflation are computed, in part, on the basis of the cost of direct materials.

The Air Force states that its calculations were consistent with DOD-Air Force instructions for computing direct material costs. Specifically, the Air Force refers to an October 31, 1979, DOD instruction, now incorporated in Air Force Regulation (AFR) § 26-1, volume I, chapter 6, which requires computing a weighted average markup rate for the supplies by multiplying the percent total cost of the purchases from each Government source of supply such as GSA, by the markup percentage stated in the CCH. Here, almost 50 percent of the supply materials involved local purchases, and no calculation of markup was necessary under the guidance since the supplies were not purchased from another Government agency.

The 12.1-percent markup used by Hill AFB was a weighted average, the average based on the 24.5 percent and 13.4 percent markups for purchases from DLA programs, which constituted approximately 30 percent of the cost of the supplies needed, and a 0-percent markup for local purchases, which represented 50 percent of the total cost of the supplies needed. This procedure is set forth in the Air Force guidance cited by Hill AFB. Where appropriate, the Air Force applied the CCH source of supply markups. Thus, there was no deviation from Air Force procedures.

D-K alleges that the Air Force's failure to use specific data relevant to audiovisual supplies also resulted in unrealistically lower markups. The CCH states that development of the direct material cost estimates should involve development of a list of supplies based on existing work needs and historical usage adjusted for any differences in the solicitation work statement. The Air Force reports that the data used were the most appropriate and credible cost data, and D-K has not shown that the CCH guidance was violated. See ACMAT Corporation, B-197589, March 18, 1981, 81-1 CPD 206.

To the extent D-K is challenging the reasonableness of the procedures for calculating direct material costs, the matter is not subject to our review. Serv-Air, Inc.; AVCO, supra.

Line 11 - Transportation Cost

D-K contends that it has been improperly assessed certain costs for transportation services.

First, D-K questions the assessment of Government furnished bus transportation costs for its employees at Hill AFB as a cost to the contractor; D-K asserts that the solicitation did not advise bidders that this was a Government-furnished service chargeable to the contractor. However, we note that section 3.4.7 of the solicitation states that transportation for location photography is a Government-furnished service.

In calculating this cost to the contractor, the Air Force took the total cost of the current in-house bus service and divided it by the number of AFB personnel. This resulted in a vehicle operations cost figure per person. Since the number of persons D-K would hire was unknown at the time the Government's estimate was prepared, the Air Force assumed the number of D-K employees would be equal to the number of current base audiovisual personnel. The Air Force multiplied the cost per person by its estimate of the number of D-K employees, and assessed the total to D-K for its share of bus service. The CCH permits the Government to assess a contractor the in-house costs that will be incurred by the Government as a result of contracting out such as Government-furnished transportation made available to the contractor. Thus, the bus transportation costs would appear to be legitimate contractor cost under both the solicitation and CCH.

Second D-K questions the need for the number of helicopter transportation trips for location and alert photographic coverage estimated by the Air Force. D-K states that in its experience helicopter trips are made less frequently than estimated and thus the cost is over-estimated. The Air Force responds that its helicopter transportation needs are an estimate based on historical data. It points out that Hill AFB is larger than other bases. The Air Force has also provided its basis for estimating the precise costs assessed for the helicopter

service. In our view, this explanation and supporting documentation meets the CCH requirement to support assessment of these transportation costs to the contractor. In any event, we note that the Air Force states, and D-K does not dispute, that the cost of the helicopter transportation was assessed to both the contractor and the Government bids equally and does not affect the final determination to continue in-house operations.

Line 15 - Other Costs

D-K was assessed for the cost of both a Project Manager and Base Audiovisual Manager (BAVM), but the Air Force only assessed itself the cost of one management position. Thus, the Government's adjusted cost for D-K's performance of BAVM and project manager duties was higher than the Air Force's cost. D-K contends it has either been assessed twice for the same contract administration duties and, its bid should be reduced to eliminate this duplicative cost, or the Air Force should include in its cost estimate the cost of the second position. D-K views the Air Force approach as a violation of the CCH requirement that costs for in-house and contracting out must be based on the same scope of work and the same level of performance.

The solicitation requires a full-time supervisor as the project manager. In addition, a BAVM is defined in the solicitation as a Government person responsible for the base audiovisual program. The position and its duties are further defined by Air Force regulations 95-1 and 95-7 cited in the solicitation. These regulations require that an officer, civilian or noncommissioned officer be appointed as the BAVM. The Air Force reports that a BAVM has duties which must be performed in-house because they involve discretionary application of Government authority, i.e., money transactions and entitlements such as developing audiovisual budgets, monitoring expenditures, and approving or disapproving requests for video productions. See, Air Force Regulations 95-1(14) and 95-7(13b) (31 October 1980).

The Air Force contends that economy of operation unique to the Government permit the BAVM and project manager duties to be performed by one person in-house. However, the contract operation requires a BAVM to handle the duties which cannot be contracted out and a project manager to manage the contract operation. In this connection the Air Force reports that the line 15 costs were

adjusted to avoid charging D-K twice for the cost of contract administration. The contractor was assessed for a BAVM performing non-contract administration duties only. The cost of contract administration was included in the cost to D-K of a project manager.

The solicitation requires both BAVM and project manager duties. Under the contract operation, the responsibility for performing these duties must be divided between a Government BAVM and project manager because certain duties, totaling less than a man-year, cannot be contracted out. Thus, the cost of one part-time worker was assessed to D-K in the cost comparison. However, the Air Force can use the one person, a BAVM, to perform the contract management duties for the in-house operation. Thus, the Air Force can save certain costs which the contractor cannot. Nonetheless, both the Air Force and D-K were assessed the costs for performing the same BAVM and contract management duties. Accordingly, D-K has not shown that the Air Force use of the BAVM to cover the contract duties violated the CCH requirement that the cost comparison be based on the same scope of work and level of performance.

Line 24-Under utilization of  
Government Capacity

D-K objects to the cost assessed to D-K under line 24. As stated in the CCH, the line 24 cost is intended to measure the impact on the AFB work center of contracting out for a product or service which it currently provides. The decision to contract out can result in the work center becoming completely idle, operating at a reduced capacity, or operating at the same or increased capacity. For example, where the decision to contract out results in the work center becoming completely idle because no other use of its capacity is planned, its facilities are either eliminated or placed in standby status. The costs of performing either of these actions are charged to the contractor as a cost of contracting out. Here, the Air Force determined that the decision to contract out would result in the work center operating at less than its present level of utilization because of the loss of the in-house audio-visual services. The Air Force concluded that some overhead costs which would be partially allocable to the service being contracted out would continue. These continuing overhead costs would be absorbed by the remaining in-house

activities. The additional amount to be absorbed by the remaining activities is a cost of contracting out. This cost was charged to D-K.

D-K points out that under the CCH the underutilization costs may be assessed to the contractor unless it is likely that the agency will be able to more fully utilize the excess capacity through reorganization or reallocation of work. D-K asserts that the decrease of work center workload resulting from the contracting out of audiovisual services would be offset by the increased demands on the AFB resulting from the F-16 airplane program. The Air Force responds that its review of possible increases and decreases in workload at Hill AFB, including analysis of the F-16 and F-4 programs, demonstrated no significant change in work center capacity during the time the D-K contract would be performed. Here, D-K and the Air Force have presented conflicting views concerning the future utilization of Government capacity at Hill AFB in the event the audiovisual services were contracted out. However, in our view, D-K has not met its burden of showing that the Air Force's projections and calculations violate the CCH guidance. ACMAT Corporation, supra.

Lines 3, 25 and 26 - Manpower and Personnel Costs

D-K contends that the Air Force has made several invalid assumptions contributing to an inaccurate computation of the costs of manpower reorganization under a contract operation. D-K indicates that the Air Force has unrealistically assumed that all displaced incumbent employees will accept downgrade, if conversion to contractor occurs, rather than other options such as taking a position with the contractor, electing normal or early retirement, or accepting a Government transfer without downgrade. D-K believes a more realistic approach should have been taken in reviewing the impact of the conversion, considering all these alternatives. D-K indicates that a DOD survey of the effect of contracting out on displaced personnel shows that over 40 percent of displaced civilian workers chose not to remain with the Government. D-K further alleges that 70 percent of the personnel involved in the Hill AFB audiovisual services have signed letters of intent to take positions with the contractor if the contract is awarded. D-K concludes that the Air Force's assumptions concerning reorganization and reduction-in-force (RIF) costs were arbitrary and without empirical support.

The Air Force refers to guidance from the Air Force Logistics Command, HQ, dated February 25, 1980, which covered the conduct of a "mock" or "paper" RIF, and calculation of personnel conversion costs, and another directive contained in a message, dated November 20, 1980, from AFLC/HQ. This guidance sets forth the procedures for Hill AFB's study which produced the personnel costs of the model conversion. In particular, the guidance states that the RIF study should "assume no one being separated will accept a comparable position with the contractor." While D-K believes that its information provides a more realistic assessment of the personnel costs of contracting out, D-K has not demonstrated that the AFB RIF study did not comply with the Air Force guidance.

Edwards Air Force Base Protest  
Line 24 - Underutilization of Government Capacity

D-K objects to the underutilization of Government capacity costs assessed. As it did with Hill AFB, it questions the rationale for the cost data and whether these costs are realistic. For example, D-K argues that many of the affected employees would have been offered other positions at Edwards AFB and that the Air Force study did not take into account increased workload responsibilities due to the space shuttle program. However, the Air Force states that its assumptions and calculations were proper and denies that the space shuttle program or the ability of Edwards AFB to find vacant positions on the base makes its cost calculations invalid. D-K has not shown that the Air Force projections as to work center capacity and the costs assessed to D-K violate the established Air Force guidance.

Lines 3, 25, and 26 - Manpower and Personnel Costs

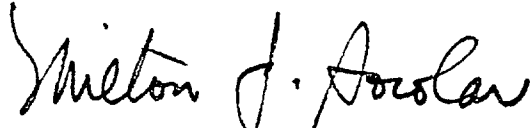
D-K raises similar objections to those raised in its protest of the Hill AFB cost comparison concerning manpower and personnel costs. The Air Force guidance required that the base assume that conversion would necessitate displacement/RIF of the entire direct workforce and that no base employee separated would accept a position with the contractor. The Edwards AFB study made its findings based on the guidance. Thus, we cannot say that Edwards AFB violated Air Force procedure.



Conclusion

In conclusion, we do not find that the Air Force's in-house and contractor cost estimates for Hill AFB and Edwards AFB were faulty or that mandated procedures were not followed. Accordingly, D-K has not been subjected to arbitrary treatment which would justify recovery of bid preparation costs. See Jets, Inc., 59 Comp. Gen. 263 (1980), 80-1 CPD 152.

Accordingly, the protest and claim are denied.

A handwritten signature in dark ink, reading "Milton J. Aroskar". The signature is written in a cursive, flowing style.

Acting Comptroller General  
of the United States